

TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

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SUBJECT: OVERPAYMENT REPORT

ITEM NUMBER: 5

ATTACHMENT: 0

ACTION: \_\_\_\_\_

DATE OF MEETING: June 8, 2000

INFORMATION: X

PRESENTER(S): Michael Carter

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At a previous meeting the Benefits and Services Committee requested staff to report the causes of overpayments to CalSTRS benefit recipients and what steps are being taken to minimize them. This agenda item is in response to this request.

**Background**

For the 1999 calendar year CalSTRS paid approximately \$3.3 billion in ongoing allowance and one-time payments to its members and their beneficiaries. During the same period 285 cases were forwarded to the Accounting Office to initiate the collection process. Of these cases \$277,500 (90 cases) were actually written-off by the System. The amount discharged as bad debt approximates .01 percent of CalSTRS' annual benefit pay-outs which is considerably lower than industry standards. It is also important to note that of the 90 discharged cases, 73 were under \$5,000 and 17 were greater than \$5,000.

**Overpayment Causes**

The following overpayment scenarios are a representative sample of the common causes of overpayments to CalSTRS members.

1. CalSTRS Not Notified of Benefit Recipient's Death. In the vast majority of cases, family members will notify CalSTRS of the death of the benefit recipient and return all warrants subsequently received. On occasion, family members will fail to report the death of a benefit recipient and cash the checks. Processes are now in place which provide timely notice (typically no more than three months) of deaths through third -party verification.
2. Full-time Student Status. Coverage B will eventually correct this, but CalSTRS must still administer the Coverage A requirements for members with children who qualify under these provisions. An example is an overpayment occurred due to the member's child not being a full-time student for the period December 1, 1994 through March 31, 1995. The total overpayment is \$2,465.30. Overpayment letters were sent on December 21, 1998 and April 6, 1999. In April 1999, a Chapter 7 Bankruptcy notice was received by the Legal Office. Collection efforts were discontinued and the balance of \$2,465.30 was written off.

3. System Error – For example, as a result of a recalculation of the member's disability allowance a \$1,680 overpayment was discovered for the period July 1, 1993 through February 29, 2000. An overpayment letter was sent on February 17, 2000 for the collectible portion of \$781.92. This amount is being collected at five percent of the member's disability allowance. The remaining balance of \$898.08 for the period July 1, 1993 through February 28, 1997 was discharged due to the three-year statute of limitations.
4. System Error – For example, a result of an audit, it was discovered that the option beneficiary's option allowance was incorrectly calculated. The recalculation resulted in an overpayment of \$587.04 for the period January 7, 1990 through December 31, 1993. This overpayment was being collected from the option benefit allowance at the rate of five percent. When the option beneficiary died, \$231.82 had been collected leaving a balance due of \$355.22. There is no estate from which to collect, therefore the balance of \$355.22 was discharged.

The above scenarios are only intended to illustrate the causes of overpayments. Overpayments that were fairly common in the past, hopefully will be minimized or eliminated in the future. For example, the remarriage restrictions have been eliminated by recent legislation. Also, overpayments related to the failure to notify CalSTRS of a benefit recipient's death will be minimized by third party "death notice" searches.

Other systemic measures which staff believe will minimize overpayments include:

- START data base design changes which will potentially correct data base deficiencies, and
- An enhanced Quality Assurance Program which will be expanded in scope to review more activities

Although overpayments will always occur, staff recognize there are opportunities to improve our processes. It is our goal to maintain overpayments at minimal levels and continue our improvement in this area.